RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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June 2, 1999 **LETTER 1279**

May 21 DJIA 10829.20; PTI 5367; A-D Ratio +4.12
May 27 DJIA 10466.93; PTI 5353; A-D Ratio +3.32
Dow Yield: 1.51%; Dow Price/Earnings: 26.8
Dow 144-day MA: 9824; Dow 34-day MA: 10644
Dow Times Book Value: 6.79; PTI 89-day MA: 5340
Percentage of Undervalued Blue-chips: 6%
Gold 34-day MA: 283

PRICE ACTION: On May 3 the D-J Transports advanced to a new record high along with the Dow, thereby re-confirming the bull market. I've written this many times before but I want to repeat it. In any bull market there will be many, many upside re-confirmations. Eventually, there will be a "last or final re-confirmation" prior to the inception of the next bear market. At such times, detractors of Dow Theory will shout that "the theory doesn't work any longer." Shout and complain as they will -- that final re-confirmation always arrives. Dow Theorists recognize it as the last rung on the ladder.

As stated above, on May 3 the Transportation Average re-confirmed the bull market. Seven trading sessions later, on May 12, the Transports closed at an all-time record high of 3783.50. From there the Transports suddenly and "unaccountably" reversed and headed lower. **As this is written, the Transports are more than 380 points below their May 12 record high.** I consider this action bearish, following so soon after a re-confirmation of the bull market.

LEVELS: This is a "wild and crazy" market with huge volatility and stock averages that repeatedly swing over 1% and often over 2% on any given day. Therefore, I feel the best way to deal with this market is to keep an open mind and be prepared. Of course, it's always good to know what you're prepared for and what you're looking at. For that reason, I want to discuss downside support levels (on the upside, obviously the important levels would be new highs).

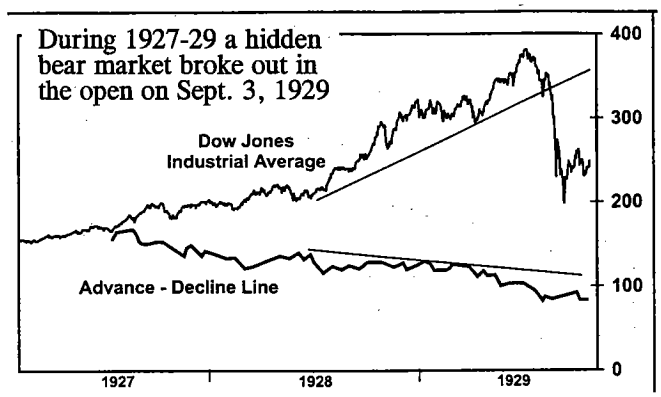
I believe a critical level (mainly because it has such psychological significance) for the Dow is 10,000. But critical support levels are currently much better defined on the S&P 500. The important 1289 level for the S&P was violated on May 26. The next important S&P support comes in at 1261. Major and critical S&P support comes in at 1210. The S&P MUST hold above 1210 to avoid a disaster. The high for the Dow was 11107.19 (a tough number to remember, darn it). The high for the S&P was 1367.56.

THE PICTURE: Here's the big picture as I see it, and I think it's a fascinating one. First, the big, weighted stock averages are still not far from their recent record highs. I'm referring to the Dow, the S&P Composite and the Nasdaq.

But there's another side of the equation. The advance-decline ratio (a proxy for **all** the stocks on the NYSE) topped out on April 3, 1998. It continued down to a low recorded on March 23, 1999. Almost 14 months have now elapsed since the April 3, 1998 high -- but as of last Friday the A-D ratio was less than 2 points from its 1999 low.

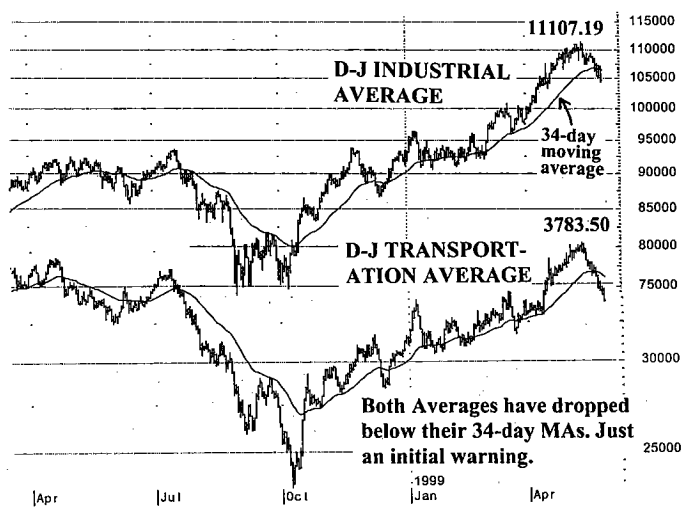
And I ask myself, what's the meaning of this extraordinary divergence between the big, weighted averages and the unweighted advance-decline ratio? Could history provide the answer? Well it very well could, because we do have a number of examples from the past. I want to discuss the two most outstanding examples and we can then compare those two with the current situation.

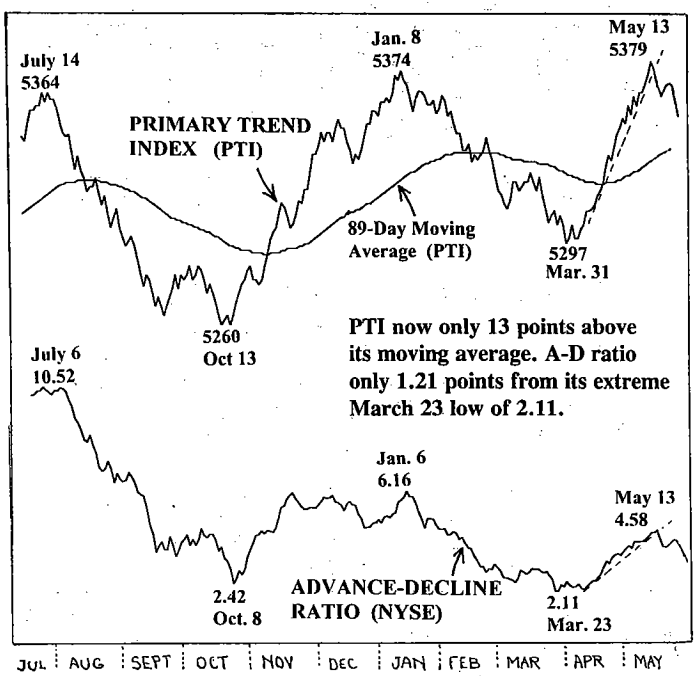
(1) First, we have the 1927-'29 affair in which the A-D ratio topped out in mid-1927, then headed down while the Dow continued to advance. On September 3, 1929, the Dow hit a final peak, and it was all over. In October the Dow crashed, following the already-sinking A-D ratio in what was to be the worst bear market in US history. By 1932 the Dow had wiped out all and more of the entire 1921-'29 bull market.

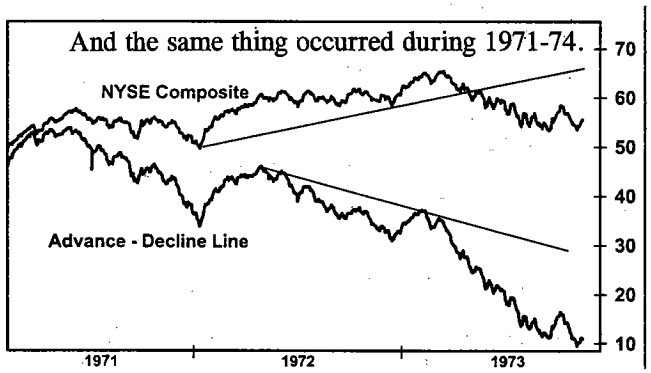


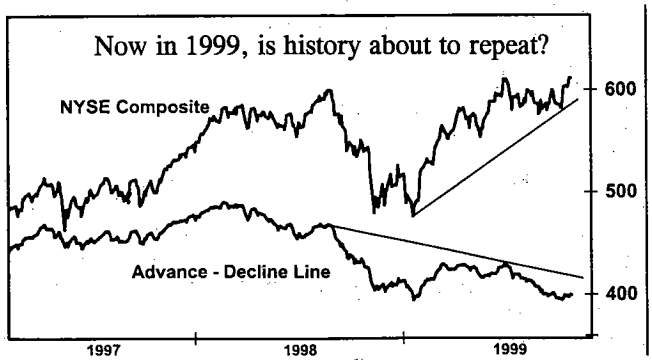
(2) In the second example we see that the A-D ratio topped out in April of 1971. The A-D continued to head steadily down throughout 1972, 1973 and 1974. But the Dow diverged (advanced) and recorded its bull market high on January 11, 1973. From there the Dow headed down along with the A-D. What followed was the worst bear market since the '30s. At its final 1974 low, the Dow had lost almost half of its total value. The majority of stocks fared far worse (chart on page 2).

(3) All right, now let's take the same Dow/A-D study to the present. The advance-decline topped out on April 3, 1998, but the A-D ratio remains in a downtrend. As this is written, we don't know whether the Dow has seen its high or not. Will the Dow repeat the examples of the past, top out, then follow the A-D ratio down? Is it possible that we're moving ever-closer to another disastrous bear market? Only time will tell. But based on









the examples of the past, the long-term outlook can hardly be called encouraging. And the mystery of the still-weak, still-diverging advance-decline continues (chart above).

To me, the dramatic and really fascinating part of this picture is that nobody (or almost nobody) is thinking in terms of a primary bear market ahead and a recession ahead. Now obviously I don't know with any certainty whether another major bear market is in the cards and neither does anyone else. But I believe that the charts above are compelling, and we do know that the markets (and the economy) will often do -- well, they'll often do the last thing that anyone expects.

In Hollywood they say (pertaining to movies) that "nobody knows anything." In the stock market, many believe that the same adage pertains. Except for this -- we know that throughout all history human emotions tend to **swing from one extreme to the other.** Furthermore, we know that the more extreme the speculation and excitement at one end, the greater the odds that emotions will go to extremes at the opposite end.

As I write this, it seems almost impossible (from an emotional standpoint) that somewhere ahead we will see a huge, long-lived swing from the current period of near-euphoria -- to one of gloom, black pessimism and even of desperation.

I leave it to my subscribers to weigh the rationality of the above studies. For my part, all I'm doing is recounting what happened in the past and relating it to the present. And, of course, I'm including my own subjective opinions. The charts are courtesy of my old friend, Martin Weiss, publisher of the *Safe Money Report* down in West Palm Beach [(800)236-0407].

Now I want to talk a bit about what I term "the mystery of gold." At any other time in the past, if gold acted as poorly as it is doing now, people would be saying, "deflation, gold is telling us deflation." But today we're not worried about deflation, we're worried about inflation. The Fed threatens to raise rates if signs of inflation continue. The bond market has been backing off, protecting itself against the possibility of inflation.

And yeah, I know all about the central banks selling gold. Everybody does. But what if we forget about the central banks and what they're doing and just take the gold action at **face value.** Is it possible that declining gold is saying that world deflation is in our future? How could that be? Well, for one thing we know that nations are **producing just about every item in vast quantities** in both agriculture and manufacturing. And we know that one of the biggest headaches facing corporations around the globe is the **lack of pricing power.** Companies can't raise prices, the markets are just too competitive. There's just too darn much production.

And now we have the Internet. Thousands of web sites offer consumers an endless number of products, many at discounts. And this is probably just the beginning. Who needs the middle-man any longer? With the Internet you sell directly to your consumer. And the price better be right.

All of this, I believe, at least allows for the big shocker -- coming world deflation. The following was written by well-known economist Lester Thurow (from the current *Atlantic Monthly* magazine): *"Globalization is forcing prices down. Production is being moved from high-cost to low-cost locations, and prices are falling as a result. Name any major product, calculate how much the world could produce if every factory were operating at capacity, subtract what the world is going to buy, and you'll find that the world's production potential exceeds expected consumption by at least a third. Cars, semiconductors chips, and oil are but three of many examples. With such an excess of production capacity, falling prices are no mystery. Firms have an enormous incentive to lower prices in an attempt to keep their facilities operating closer to capacity . . . In a deflationary world, debt is to be avoided at all costs. Real interest rates are very high and debts have to be repaid in dollars of greater value than the dollars that were borrowed. Those with debts want to repay them as quickly as possible, because debt burdens automatically grow larger in real terms over time."*

Thurow's comments give you some idea of why the Fed is so terrified of deflation. The Fed can control inflation simply by raising rates. But deflation is much more difficult to counter. Inflation is fired up by greed. Deflation is generated through fear. Fear is a more powerful emotion than greed. Once it starts, it tends to feed on itself. The investor's protection against deflation and fear is liquidity and avoidance of debt.

One more thought: The two biggest industries in America are the **housing** business and the **auto** business. A few weeks ago Morgan Stanley down-graded the auto stocks and they all gapped down (and, I might add, appear to have topped out). Then on May 19 the Commerce Dept. announced that new home

construction plunged 10.1% in April, the sharpest decline in more than five years and the third straight monthly decline. Question: With competition already fierce, what do you think the picture would look like if consumers started cutting back on their spending? Deflation, anyone? Collapsing profits, anyone?

New-Home Construction Plunged 10.1% in April

By Alejandro Bodipo-Memba
Staff Reporter of The Wall Street Journal

WASHINGTON—Construction of new homes plummeted 10.1% in April, the sharpest decline in more than five years.

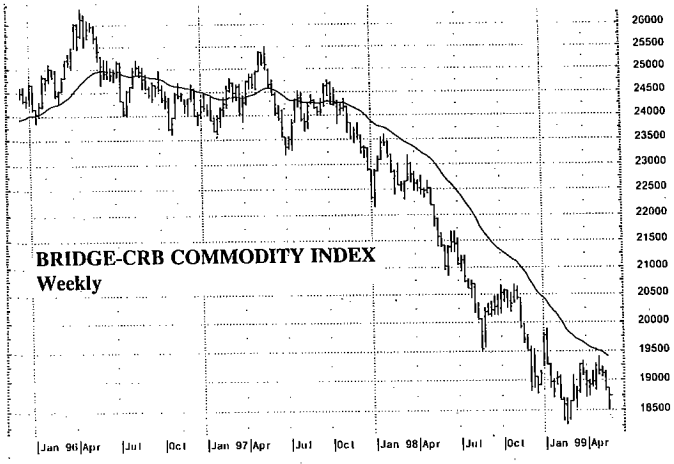
The Commerce Department said house- in April, the biggest jump in almost nine years, driven in part by higher housing costs. Also, the interest rate on 30-year mortgages rose to an average 7.10% last week, approaching the 10-month high of 7.11% hit in mid-March.

falling 5.1% in March.

Meanwhile, building permits fell 5% last month, reaching their lowest point since September, and confirming that spring building activity has leveled off, analysts said.

"The housing starts report for April

Note: Incidentally, the commodity indices are still fluctuating around their lows, adding ammunition to the deflation argument.



This appeared in the May 21 *USA Today*. They're telling us how to get ready for inflation. But is anyone telling us to get ready for deflation?

USA TODAY · FRIDAY, MAY 21, 1999 · 3B

MANAGING YOUR MONEY | Every Friday

How to get ready for inflation

The specter of inflation is lurking again, and that means rising interest rates. Things aren't too bad yet. But now is the time to think about the future and maybe take some steps to hedge your bets.

INVESTMENT POSITION: I've placed a little bull in the box, because technically, with the re-confirmation of the bull market by the Transports on May 3, it's still a bull market. I have my doubts, but I'm following classic Dow Theory, and until I get a bona fide bear signal, the "reluctant" little bull stays in the box.

Nevertheless, there's nothing in Dow Theory that states that we have to wait for a bear signal before selling or before placing ourselves in a very defensive position. And that's exactly what I advocate for subscribers and what I've done in my own accounts.

I've stated in the last few Letters that the only stocks I've even considered buying or holding are the utility stocks. I picked them based on the fact that many provide well-covered yields of 5-6%. But at this point, I wouldn't buy any stocks. I'd hold Treasury bills or notes. The most popular notes are the two-year notes, and I'd as soon pick them as any maturity.

One thing I most definitely don't like about the current situation is the almost total LACK of talk about the possibility of a major bear market. If, and I say IF, the primary trend of the market is in the process of turning down, stockholders will be "locked in" very quickly. If so, before long we should see the Dow break below 10,000. What's so important about Dow 10,000? I use that figure because so much publicity was given to the Dow when it climbed above 10,000; therefore I'm sure that the public would not take kindly to a Dow under 10,000. Breaking below Dow 10,000, I believe, would frighten the public. They would begin to believe that "maybe something was wrong." And that could trigger some real selling on the part of US stock and fund holders. At any rate, these are some of the things I'll be watching for. They may not happen, but if they do, my subscribers will (I hope) know exactly what they mean.

NOTES & QUOTES: The word is that Treasury Secretary Rubin left office because things are so good the nation doesn't need him anymore. My take: Rubin said "bye" because he thinks we've seen the best, and the worst is coming up. Rubin is a market man, Greenspan is an academician. Nuff said.

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Do you know how many websites are now on the Internet? The figure I hear is 400 million (honest, that's no joke). Everybody and every company has a web site. College kids have their own web sites, cooks and bakers have their own web sites, hotels and dog breeders and neighborhood bars have their own web sites. Among commercial companies, the competition is vicious and growing more so.

Now it's cars. There are a number of outfits that will sell you cars direct, while cutting out the dealer. They are CarsDirect.com, Carpoint.msn.com, Autoweb.com, Autobytel.com, and Cars.com. What about the car dealers? They tend to make their money on service anyway, and that may be their real future.

So the Russell question again -- the Internet is fabulous, I love it. But can anyone make money on the net? Sure, the guys who make money are the ones who set up a web site and then sell 10% of their company to the public for a billion dollars. My suggestion -- instead of the widely used .com, I suggest a .npo at the end of most net sites. The .npo stands for "non-profit organization."

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Wait, do you want to know who's making money on the net? Here it is: according to market analyst Datamonor, adult material (we call that porno) made up 69% of the $1.4 billion market of paid-for online content in 1998. US sites drew 84% of that total. The $970 million adult market is forecast to grow to $3 billion by 2003.

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This from Andrew Serwer's column in the June 7 *Fortune*: *"So what will become of Wall Street's Internet infatuation? Instead of crashing, I think the hypervaluations will fade gradually as the Internet becomes so commonplace that Net companies lose their uniqueness. Here's why: Wall Street's Internet obsession is just a supply/demand imbalance. There has been more demand for Net stocks than there has been supply, which has given these shares great value. But as more Internet companies go public and then issue stock in secondary offerings, and -- most significant -- as more traditional companies incorporate the Net into their businesses, the designation 'Internet stock' will lose its panache and eventually, perhaps, its meaning. At some point, maybe sooner than we think, all stocks will be Internet stocks."*

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Last week Europe's new currency, the euro, broke below $1.06. The euro is now down more than 10% against the dollar. Although this is downright embarrassing for Europe, it hardly helps the surging US negative trade balance. With a declining euro, European goods are becoming progressively cheaper and more attractive to US buyers. Meanwhile, the voracious US consumer is literally holding up the world's economies. Let the

good times roll (of course, I'm wondering whether the US consumer is at the point of cutting back and starting to save).

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The May 15 *Financial Times* had the best interview with Warren Buffett that I've seen yet. A few excerpts: Buffett was asked where the market is going. He side-stepped the question: "I'm really not a macro guy at all. People think I am because they think that if you are in this business you have to be. But it doesn't enter into my calculations at all. The macro just doesn't mean anything. I read the *FT* every day, but if there is something in there headlined, 'what I think the world will look like next year' by anybody prominent in the world of economics, I don't read the article. The time spent doing that I could spend looking at businesses. I'm not interested in soothsaying. I'm willing to make forecasts about businesses, like Netjets, Coca Cola or Gilette, because I have an idea of where they will be in 10 years. I've got a strong feeling that they will remain the dominant factors in their industries and their industries will get bigger . . . I've learned the perimeter of my competence. If you name almost any big company in the US I can tell you in five seconds whether it is in my circle of competence, and if it is I've probably got some sort of a fix on it. There are probably hundreds of companies in a category, and if I get a call from any one of them today, I can tell them whether I was interested or not as soon as the fellow identifies himself. First, it has to get through the filter whether it is a good business, but the person is enormously important. I would not have bought Executive Jet if Richard Santulli hadn't been running it. That is one of the key things I do. Try to figure out if who is selling the business loves the money or loves the business. There is nothing wrong with them loving the money, even if that is all they want. It is not a moral judgment, it's just a practical judgment from my standpoint because I don't what to run those businesses. I've got to be sure I'm in with the right person. I'm looking for ability and integrity. And you might say energy too, because every one of these people is going to be rich if they sell me their business. So the question is, are they going to hop out of bed at the same time they have sold me the business? . . . I've never been let down by a hero -- a huge plus in my life. My dad was the super-hero of all time to me. My dad said anything you do that is legitimate, I'm for it. He didn't say you've got to do what I do or anything of the sort. He might have been more pleased if I'd been a minister or something, but he supported me 100%. I do the same with my kids. They all do to the best of their abilities what they are best at and they are productive. That's all you can ask . . . I'm an agnostic; that's a person who says I'm an atheist, thank God . . . So where will my money go? 99% plus -- goes to society. In my lifetime, and my kids', the total amount spent on the whole family will be less than 1%. I have the fun of doing all these things in my life, and the money can do some good later for society."

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Gosh, how things have changed. The May 13 *NY Times* featured a full-page article about the gorgeous new dorm just built by New York University. It's called University Hall, and the *Times* showed pictures of the upscale dorm rooms and the magnificent glassed-in, high ceiling dining room. The average cost for a shared room at the new dorm is $7,000. As an old-time NYU graduate (circa 1947) I'm fascinated to see what's happening at my old alma mater. I attended NYU under the GI Bill. At that time NYU was a "subway university," meaning that most of us commuted to school down at Washington Square in Greenwich Village via the subway (the trip cost a nickel). NYU at the time was a fairly big university, but it's now the largest private university in the nation with a total of 60,000 students attending. NYU owns property all over the city, and it boasts that the city of New York is its "campus." The school has increased greatly in prestige with many of its colleges now among the best in the nation. Half of NYU's students now come from outside the city, and that alone is a huge change (back in '47 almost all the students were from New York). And as the case with most top universities, it's not easy to get in.

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If you are a long-time market student or historian, you've probably wondered how or why this market has held up and remained in the overvalued area so long. I just received a report from a long-time stock broker, and he emphasizes the "massive attitudinal conditioning that has been done on the new investors of the last decade by the managed money industry." He states, "Investors are numb to equity risk because they have been systematically made numb to the potential downsides of equity markets." The correspondent then lists the main elements in what he considers the managed-money program. (1) A decade long "attitudinal conditioning program funded to the tune of billions of dollars a year, produced and implemented by the best advertising and marketing experts in North America." (2) "The billion-dollar 'buy-and-hold' ad campaign, the new media myth that equity investing is ('in the long run') foolproof. The thesis that the 'long term' result can only be up and bear markets are transitory." (3) "The mythical, always successful, newly empowered investor; Forrest Gump's bull market." He quotes from E*Trade's CNBC ads which tell you, "Now you have a choice you never had before" or "You don't need to be a genius to make more money in the market, you just need the right tools," or "Why pay someone else to do what I can do myself?" **Russell Comment:** Yes, I agree that today's stockholders have been conditioned to believe that a "buy and hold for the long term" strategy will result in almost guaranteed large profits for the patient investor. Thus, the correct policy is to buy the dips and sit tight with your securities, through thick and thin, no matter what. As for valuations, this is not a problem and not even a consideration. The only problem is to have the courage and intelligence to keep buying.

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A front page article in the May 20 *NY Times* states that Internet day trading has taken over in offices across the nation, taken over from porn, chat room, E-mail, sports, news. Net trading has become the biggest preoccupation in the nation.

Some Abandon the Water Cooler For Stock Trading on the Internet

By ROBERT D. HERSHEY Jr.

In Florida, a young dentist tracks stocks between patients, sometimes even between an X-ray and a filling. In Washington State, a freight-company manager logs on to a financial Web site for four to six hours of his workday. A designer at a California

While much of the early concern about workday Internet abuse focused on pornography, the lure of the stock market has overtaken it, some specialists said. The Internet is making a lot of information available to small investors that was once acces-

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I have the feeling that this market is wearing everyone out. Personally, I doubt that many of the day-traders are making money. The mutual funds are now having trouble. Big hedge fund operators such as Soros and Robertson are down so far this year. And the public is losing interest in their funds. What's it all about? I think it's about a market that's getting tired, very tired.

COVER STORY

Mutual funds in a funk?

Only a select few are benefiting from charging bull market

By John Waggoner
USA TODAY

WASHINGTON — You might think representatives of the mutual fund industry, gathered here for their biggest conference of the year, would be deliriously happy. Mutual funds now have $5.7 trillion in assets, up from $5 trillion a year ago and $809 billion a decade ago.

But the rising tide of the bull market is lifting [illegible]

mance, things aren't likely to change.

Favored few

Performance drives the money flowing into the mutual fund industry. And for much of the past 18 months, performance has come from just two places: The 50 largest stocks on U.S. stock exchanges and Internet stocks. Funds that look

* *

Russia appears to be falling apart. And one major symptom is declining health. Since the breakup of the old Soviet empire in 1991, statistics show that diseases are running rampant in Russia. Life expectancy of men has now dropped to 61, far below the US rate of 78 and even of Mexico's 71. Bad air, lead emissions, radioactive and chemical contamination have led to a variety of diseases. As one *LA Times* columnist put it, "If cause-

of-death statistics are to be believed, the world has never seen anything like the epidemic of heart disease that rages in Russia today." Writes Harvard demographer Nicholas Eberstadt, the Russian health crisis "is historically unprecedented: no industrialized country has ever before suffered such a severe and prolonged deterioration during peacetime." He says that Russia's health problems could contribute to its relative decline for another generation and could well become "a significant constraint on Moscow's prospects for re-attaining Great Power status."

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"Ho-Hum," headlines the May 24 *Business Week,* "Another Earnings Surprise." The article states what I've said all along. The pressure on companies to boost their stock prices is so intense that the companies purposely suggest to analysts that earnings will not come up to "expectations." And then a few days later when earnings are announced the earnings ("hey, surprise") will better "analysts' expectations." One analyst is quoted as saying, "You wouldn't believe the number of companies that call us a day or two before they announce earnings. They're looking for the most recent consensus number so they can trump it." Writes *Business Week,* "Companies need to to generate positive surprises to keep not only stockholders but stock option holders happy -- and that group is growing . . . Lowering expectations is not just a matter of trying to boost the stock price. Companies prefer to talk earnings down rather than up because if they fail to meet the high estimates, they risk shareholders lawsuits." **Russell Comment:** The whole "beating analysts' expectations" thing is becoming a bad joke. It's part of the unending hype that has become a part of the CNBC spiel. To put it mildly, the "earnings surprises" parade is now a branch of show business.

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I told you so. Clinton's overall "favorable job performance" ratings has dropped to 47.4%, down from 50% in April.

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Interest is rising again regarding the fantastic 1914 voyage of British explorer Ernest Shackleton across the Antarctic. A new book, "Endurance," chronicles Shackleton's miraculous return to safety after being stranded with his crew on the ice during an incredible Antarctic winter. It's one of the greatest survival stories of all history. Few, however, know of the ad that Shackleton placed in the newspapers prior to the expedition, an ad that was answered by dozens of Americans. Here's the ad: "Men wanted for hazardous journey. Small wages. Bitter cold. Long months of complete darkness. Safe return doubtful. Honor and recognition in case of success." **Russell Comment:** I don't think I would have answered this ad. My wife just wouldn't let me.

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	% held by instit.	Sponsorship rating	% off high
Sterling Commerce	62.9	C	-20
Sportsline USA	49.0	C	-44
Lycos	48.2	C	-24
Onhealth Network	46.6	D	-37
America Online	43.9	B	-26
Verisign	42.3	C	-26
E-Trade Group	36.3	C	-25
Cnet	34.5	C	-21
Excite	31.6	D	-25
Concentric Network	30.4	C	-33
Sierra Wireless	30.0		-1
Security Dynamics	29.6	C	-34
At Home	29.5	B	-31
Telebanc Financial	26.6	C	-56
Cdnow	26.6	C	-53
Psinet	26.3	D	-33
DoubleClick	25.6	C	-35
Open Text	24.0	D	-24
Network Solutions	24.0	C	-57
Secure Computing	23.9	D	-88
Advanced Health	23.5	D	-65
Exodus Comm	22.9	D	-22
RealNetworks	22.6	C	-37
CMGI	22.4	C	-28
Beyond.Com	22.2	B	-45

Yes, you can lose money in Internet stocks. Here's *Investor's Business Daily's* run-down of assorted net stocks, showing institutional favorites and the percentage each is off its high (this table came out a week ago, so obviously it is not up-to-date).

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I've been saying that the future of the nation is women. Women are now running for the presidency, women are now outnumbering men in law schools, women are now outnumbering men in medical schools, women are now getting more PhDs than men. Listen, men have screwed up almost everything for decades, how about women taking over for a while? And how about this -- the number one graduate of the US Naval Academy this year is a woman, as were numbers 2, 4, 6 and 9. Half of the top 10 Naval Academy graduates were women, although women comprised only 15% of the class.

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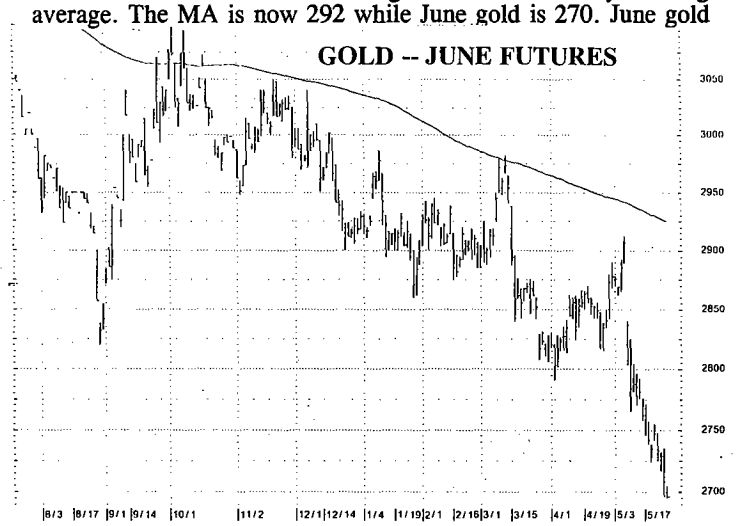
Ah, now that the Cold War has died, the US has found a new enemy, China. The Cox Committee, in a 700-page unclassified report, accuses China of stealing "information on all of the US' most advanced thermonuclear warheads . . . These thefts are the result of intelligence collection programs spanning two decades and continuing to the present." The report fails to distinguish between legal and illegal actions. This is because the report doesn't have proof of how the Chinese got their info. The report is full of examples of info that was exchanged at scientific seminars and available in scientific journals. The conclusion is that since we don't know how the devil the Chinese got their information, we're assuming that it was stolen. The real story of how the Chinese got their information will eventually emerge, and it will be most interesting. But remember this -- every nation has spies. The Chinese were doing their job and doing it well -- and we were doing a lousy job of protecting classified information. At any rate, the politicians are really, really, really mad, so you can be sure that heads will roll (including Janet Reno's?).

GOLD: OK, here's Russell's revolutionary stance. I'm taking the gold action at face value. Declining gold is saying deflation. The **cover-up** is that the central banks are selling gold -- driving the price down. Again, I say, "Baloney." I'll tell you something -- if the investors of the world were truly afraid of inflation, they'd LOVE the fact that central banks were selling gold. Central bank selling would mean that there was plenty of supply at bargain prices. NO, I don't give a damn about central banks' selling of gold. Gold is going down because the great unconscious of the market smells deflation. Believe me, if the world's investors were afraid of inflation, gold would be in the 500s by now, not in the high 200s.

Of course, if we do get net deflation, the central banks will open the money spigots wide -- and I mean WIDE. At that time there could be real fear regarding what these paper currencies are really worth. That's the time when gold could go higher. But right now, all you hear is the various "experts" warning us about inflation. It's the consensus. And you know how much the consensus is worth in this business.

On May 26 June Gold broke below 270, this for the first time in many, many years. The gold shares have been (I hate to say this) slaughtered with Barrick down near 16, Homestake near 7, Newmont near 17 and Placer Dome just above 11. What we're seeing is the gold market's re-run of the stock market during 1929-'32. But remember this -- after 1932 came the explosive bull market of 1932-'37.

I include here a chart of June gold and its 200-day moving average. The MA is now 292 while June gold is 270. June gold



is now about 8% below its MA, and this is, well, I guess you could call it an extreme. The latest plunge in gold looks almost terminal, or as they say -- "overdone." We'll see.

Note: Obviously, many gold-philes don't agree with me regarding gold manipulation. GATA (Gold Anti-Trust Action Committee) has retained the Philadelphia law firm of Berger & Montague to assist in its investigation of the alleged manipulation of the gold market. Bill Murphy, Chairman of GATA stated, *"For the first time, the gold industry is speaking out on the record and in specifics regarding what they have suspected for years . . . We believe one of the reasons that various financial institutions are acting in concerted action to hold down the gold price is that they are now short hundreds of tons of borrowed gold and that the speculative community in toto is short 3,000 tons of more."* **Russell Comment:** GATA could be very right, but I wonder whether any group can hold the price of an item down month on end if the primary trend of that item is bullish.

In the meantime, there's extraordinary faith in the dollar, clearly more faith in the dollar than in gold -- although why people would put their trust in a "legal tender paper" rather than a tangible asset is beyond me. But I guess it's the old story -- if your government tells you something often enough, most people will believe it. Of course, we also have the Fed, which has now attained almost God-like status in the person of Mr. Greenspan. It's Greenspan behind the greenback.

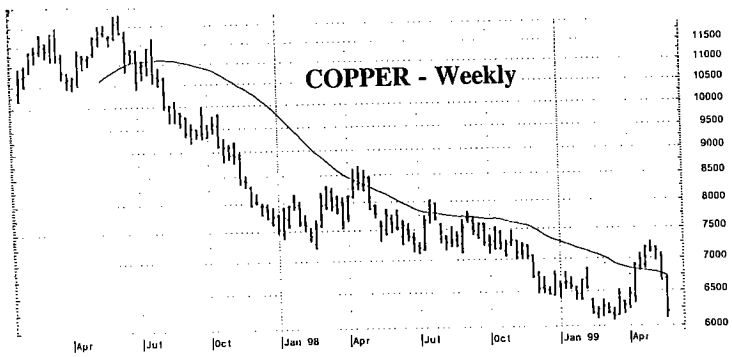
Greenspan Has Become The New Gold Standard

By Floyd Norris

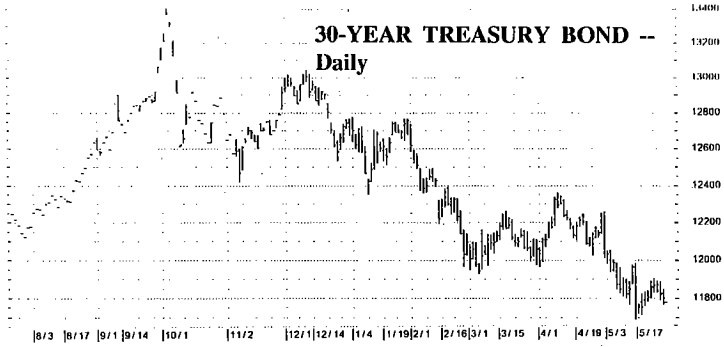
NEW YORK — Is gold on its way to becoming just another commodity? The people who run good deeds. To those who still view gold as the only real money, having the Swiss defect is a bit

On May 26 Europe's new currency, the euro, broke below $1.05 for the first time, and the talk was of ".99 in '99," meaning a euro under a dollar in 1999. The declining euro means that US exporters will have an even harder time trying to sell goods priced in expensive dollars. And the US trade deficit will continue to climb to new record highs. Ultimately, the world will have "too many" dollars, and they will want to diversify. A rush out of dollars could trigger a major advance in gold. But at the moment, the world wants dollars, that's the reality.

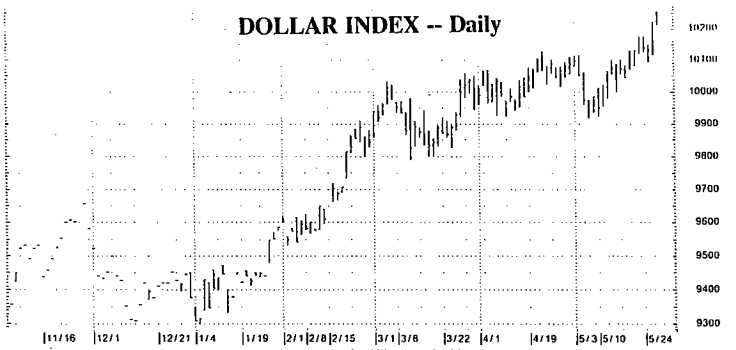
CHARTS: I'm including a group of what I consider significant charts. The first is copper (July contract). **Copper** is used everywhere in almost everything that is manufactured. Many consider copper to be a bellwether of the world's economy. This is a weekly chart along with the 200-day moving average



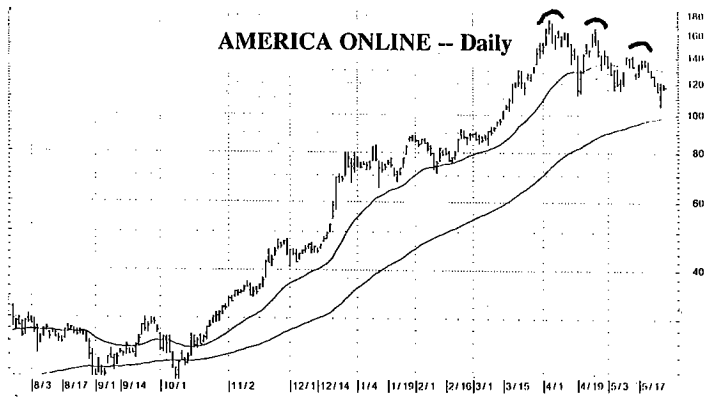
The second chart shows the **30-year (long) Treasury bond.** It's been heading down, and it is currently not far from its low. The yield on the long bond is now 5.81%, 4.8 times the yield on the S&P Composite (S&P yield is 1.2%).



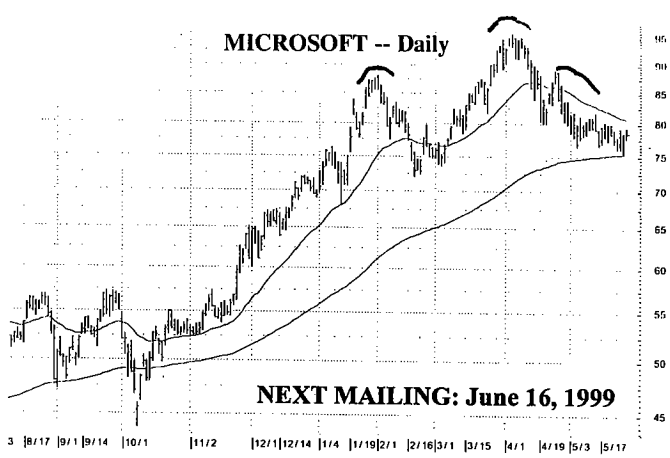
The third chart shows the **Dollar Index (June)** at a new high. The surging dollar is great for pride but a killer for our exports.



The fourth chart is a speculative leader, **America Online.** I include both the 34-day and 144-day moving averages. AOL is below its 34-day MA, but the real support comes in at 112. Below 112 and the stock is in trouble, if it's not already.



The next chart shows mighty **Microsoft,** the biggest-cap stock in the world. MSFT is now below its 34-day MA with critical support at 72. You don't want to see MSFT below 72 (unless, of course, you are short). I consider MSFT a key bellwether stock.



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